UNITED NATIONS

DP

Executive Board of the United Nations Development Programme and of the United Nations Population Fund

Distr.
GENERAL

DP/1997/3
31 October 1996

ORIGINAL: ENGLISH

First regular session 1997
13-17 January 1997, New York
Item 7 of the provisional agenda

AUDIT REPORTS

Follow-up to recommendations of the report of the Board of Auditors for the biennium 1994-1995 (A/51/5/Add.1)

Report of the Administrator

I. PURPOSE

1. As in previous bienniums, and in accordance with General Assembly resolutions 47/211 of 22 December 1992 (paras. 9, 10 and 12) and 48/216 B of 23 December 1993 (para. 5), the Administrator is bringing to the attention of the Executive Board the report of the Board of Auditors on UNDP for the biennium ending 31 December 1995 (A/51/5/Add.1).

2. The present report has been prepared in response to General Assembly resolution 48/216 B, in which the General Assembly requested the Secretary-General and the executive heads of United Nations organizations and programmes, at the same time as the recommendations of the Board of Auditors are submitted to the General Assembly, through the Advisory Committee on Administrative and Budgetary Questions (ACABQ), to provide the Assembly with their responses and to indicate measures that would be taken to implement those recommendations, with appropriate timetables.

3. The present document contains a tabular summary of recommendations, with paragraph reference to the report of the Board of Auditors for the biennium 1994-1995, listed by area of audit, namely financial issues, reserve for field accommodation, national execution, budgetary performance, management of funds and trust funds, and internal audit. The table also indicates the UNDP response to each recommendation, which was provided to the Board of Auditors during the preparation of its report, as well as the status of any follow-up action and the target date for completion, as at the date of compiling the present document.

The Administrator is pleased to report that progress has already been achieved in certain areas and that efforts are being made to address issues that are still outstanding.

4. The Administrator wishes to indicate that, in response to the above-mentioned resolutions, UNDP has also submitted the present tabular summary report to the General Assembly, through the Secretary-General and ACABQ; it is contained in the report of the Secretary-General on the recommendations of the Board of Auditors (A/51/488/Add.2). The report of ACABQ is contained in document A/51/533.

5. It must be noted that at the time of the preparation of the present document, the Fifth Committee had not considered the item on audit reports. Therefore, the comments of the Fifth Committee are not reflected in the present report. Information on any significant comments arising from the discussions in the Fifth Committee will be reported on orally to the Executive Board at its current session.

6. During the course of the audit exercise for the biennium 1994-1995, UNDP provided a detailed written response to all the observations made by the Board of Auditors in the form of management letters. Such observations, findings, recommendations and UNDP responses are reflected in the report of the Board of Auditors. UNDP also provided the Board of Auditors with a progress report on the status of implementation of the recommendations for the 1992-1993 biennium, a summary of which is contained in its current report (A/51/5/Add.1).

II. EXECUTIVE BOARD ACTION

7. The Executive Board may wish to:

1. Express its appreciation to the Board of Auditors for the recommendations made to the United Nations Development Programme in an effort to assist in the improvement of its operations;

2. Note with satisfaction that considerable progress has been made by the United Nations Development Programme in implementing the recommendations of previous reports of the Board of Auditors;

3. Further note that the Administrator has taken or is taking action to address all recommendations made by the Board of Auditors in its report for the 1994-1995 biennium.

EXTERNAL AUDIT FOLLOW-UP ACTIONS AND TIMETABLE

Status as of 17 October 1966

Board recommendations	UNDP response	Follow-up actions	Status and target date
Financial issues 1. UNDP should supplement its existing approach by ensuring that all [national execution] projects with significant expenditure are audited independently (paras. 9 (a) and 70).	UNDP agreed to review the audit strategy and possible changes required to financial regulation 17.2, concerning the external audit of national execution projects.	The analysis recommended and the early start in selecting projects for audit have already been put in place. During late 1996, UNDP shall collect the required data from country offices. The end result will be a revision of financial regulation 17.2. By March 1997, UNDP will produce a draft which will be in line with the Board's recommendations on selection of projects.	Ongoing/ 1 March 1997
Reserve for field accommodation 2. UNDP should establish appropriate controls to coordinate and monitor payments made in the field and at headquarters for the construction contracts under the Reserve for Field Accommodation (RFA) (paras. 9 (b) and 85-91).	UNDP has established a working group to address the breakdown in controls, including monitoring and oversight. UNDP is examining the certifying and approving officer functions.	UNDP is addressing the structural problems relating to financial control and managerial supervision by tightening internal controls, including procedures to create obligations to cover all disbursements from the Reserve. Certification and approval functions associated with the Reserve have been revised. An inventory of transactions requiring certification or approval both at headquarters and in the field is being put together, looking at all signatory functions to delineate responsibilities of managers and staff and to establish ceilings for such authority and the conditions to be met. This is to ensure that such breakdown does not recur in the future. UNDP intends to report on the completion of this exercise at the September 1997 session of the Executive Board.	Ongoing/ 1 September 1997

Board recommendations	UNDP response	Follow-up actions	Status and target date
3. UNDP should ascertain whether any payments to contractors, subcontractors or the architect were outside the terms of the contracts and, if so, take appropriate recovery steps (paras. 9 (c) and 93-103).	In February 1996, UNDP engaged an architect to provide an independent assessment of the construction works. UNDP started an in-depth review into the contractual arrangements with the architect in question and his performance under the contracts. The Administrator has established a separate oversight committee to review accountability aspects of RFA.	UNDP has established a special group of finance, administration and audit personnel to review payments made and claims outstanding in order to verify their propriety.	Ongoing/ 1 December 1996
<u>National execution</u> 4. UNDP needs to establish standards of Governments' capacities to manage and deliver national execution projects (paras. 10 (a), 33 and 142-143).	UNDP told the Board that it would set standards for capacity assessments as part of its policy document on national execution and would issue better-defined capacity assessment guidelines as part of its revised Programme and Projects Manual.	Governments are primarily concerned with their capacity to execute projects and programmes. When considering capacity assessments towards UNDP standards and procedures, the UNDP country office is naturally called upon to initiate and guide capacity assessments. Revised capacity assessment guidelines will reflect this. Proposed steps include the recruitment of a consultant to refine and develop assessment guidelines for inclusion in the revised National Execution Manual currently undergoing preparation. Requirements on capacity would vary greatly, depending on the complexity of the project/ programme, implementation and management arrangements and use of available support. General standards and guidelines will reflect these facts.	Ongoing/ 31 January 1997
5. Country offices, in association with Governments, need to assess Governments' existing capacities against those [above] standards (paras. 10 (b), 141-142).	UNDP told the Board that it would set standards for capacity assessment as part of the policy document on national execution and would issue better-defined guidelines as part of its Programme and Projects Manual.	Refer to item 4 above.	Ongoing/ 31 January 1997

Board recommendations	UNDP response	Follow-up actions	Status and target date
6. UNDP, in association with Governments, needs to formulate projects designed to address any gaps or weaknesses in Governments' capacities to bring them up to the required standards (paras. 10 (c), 131 and 145).	UNDP has initiated regional workshops to strengthen the capacity of country offices and Governments in procurement activities. In 1996 UNDP had organized three regional workshops on monitoring and evaluation and was also developing arrangements with the World Bank to train senior officials in programme countries in monitoring and evaluation.	With its focus on capacity-building, UNDP is already addressing on a regular basis gaps in government capacity to manage its development projects. Future guidelines on capacity assessment will further facilitate the addressing of such gaps through project activities. The revised National Execution Manual will include further guidance on monitoring and evaluation in the national execution context.	Ongoing/ 31 January 1997
7. The objectives of national execution should be clearly defined to provide a closer link with UNDP's overall aims (paras. 11 (a) and 120).	UNDP concurred with the need to establish clearly defined objectives for national execution and was preparing a policy document for submission to the Executive Committee, which would address this issue and define a clearer strategy for the further expansion of national execution.	The key conclusions of the policy document have been discussed in the Executive Committee. The finalized document will be presented to the Programme Management Oversight Committee (PMOC) in October 1996. The proposed definition of objectives for national execution will be incorporated in the revised National Execution Manual and submitted to the Executive Board at its annual session in 1997, together with an expansion strategy.	1 May 1997
8. UNDP should issue new guidance on national execution which reflects all the relevant legislation and national execution's objectives, and strengthens and delineates UNDP's accountability requirements (paras. 11 (b) and 125).	UNDP told the Board that it was revising the Programme and Projects Manual and that this should simplify procedures, reconcile conflicting instructions and eliminate ambiguities concerning national execution. UNDP expects to issue the revised Manual by December 1996.	The revision of national execution procedures in the Programme and Projects Manual is ongoing, with the inputs from UNDP units concerned being discussed internally at present. Key proposed steps are workshops, recruitment of a consultant, and discussions in PMOC. Production and issuance of the final revised guidelines will be completed by January 1997.	Ongoing/ 31 January 1997

Board recommendations	UNDP response	Follow-up actions	Status and target date
9. UNDP should re-emphasize the need to assess the Government's capacity to undertake national execution projects (paras. 11 (c) and 142).	UNDP agreed that national capacity assessments needed to be strengthened in terms of scope, frequency and quality and that roles and responsibilities needed to be clarified. UNDP told the Board that it would set standards for capacity assessments as part of its policy document on national execution and would issue better-defined capacity assessment guidelines as part of its revised Programme and Projects Manual.	Refer to item 4 above.	Ongoing/ 31 January 1997
10. UNDP should develop capacity assessment guidelines, incorporating standards of Governments' capacity to undertake national execution projects, and provide training to country offices and Governments, to help them carry out strategic capacity assessments (paras. 11 (d) and 142).	UNDP told the Board that it would set standards for capacity assessment as part of its policy document on national execution and would issue better-defined capacity assessment guidelines as part of its revised Programme and Projects Manual.	Refer to item 4 above. The national execution procedures revision will be accompanied by a general training package, including issues of capacity assessment. Once such guidelines are established, the Office of Human Resources' Learning Resource Centre will incorporate the subject into its usual training programmes and workshops for UNDP programme staff.	Ongoing/ 31 January 1997
11. UNDP should establish an evaluation strategy to provide a comprehensive assessment of the progress and achievements of national execution (paras. 11 (e), 37 and 150-154).	UNDP told the Board that its approach consisted of a combination of internal reviews and external evaluations to identify experiences and highlight new issues for subsequent evaluations. UNDP's 1997 evaluation workplan includes studies on cost-effectiveness, sustainability and self-reliance.	UNDP has a strategy for assessing the progress and achievements of national execution. This strategy will be formalized in the Administrator's report on evaluation to be submitted to the Executive Board at its annual session in 1997.	Ongoing/ 1 June 1997
12. UNDP should initiate thematic evaluations of sustainability, capacity-building and cost-effectiveness, incorporating direct comparisons, where possible, between national execution and other execution approaches (paras. 11 (f) and 154).	The Board was pleased to note that UNDP's 1997 evaluation workplan includes studies on cost-effectiveness, sustainability and self-reliance.	Basic issues for this evaluation will be discussed at the next meeting of the Inter-Agency Working Group on Evaluation in November 1996. This evaluation will take place during 1997.	Ongoing

/...

Board recommendations	UNDP response	Follow-up actions	Status and target date
13. UNDP should initiate a further review of the utilization and impact of the Technical Support Services (TSS 2) facility (paras. 11 (g), 135-138 and 156).	UNDP told the Board that the TSS 2 facility would be studied as part of a review of recent experiences of the support cost arrangements. UNDP informed the Board that new instructions would include a mandatory requirement for each national execution project to contain budgetary provisions for technical backstopping or participation by a specialized agency in the review of the project during implementation.	New national execution instructions will include a mandatory requirement for each national execution project to be reviewed as to the need for budgetary provisions for technical backstopping or participation by a specialized agency in the review of the project during implementation. Such budgetary provision could in the first instance be financed through the Support for Technical Services facility or be part of the regular budget.	
14. UNDP should develop, in association with the agencies, the information systems required to collect data for national execution performance indicators (paras. 11 (h) and 158-159).	UNDP told the Board that it was giving priority to accelerating the development of appropriate systems for the performance indicators and had engaged a consultant to develop such indicators. UNDP plans to integrate performance indicators for support cost arrangements and national execution with other performance benchmarks for UNDP's programmes.	UNDP is developing trademark sustainable human development indicators and a Project Impact Performance Assessment (PIPA) system. Programme performance will encompass all execution modalities. UNDP plans to integrate performance indicators for national execution with other performance benchmarks for UNDP programmes. Country offices will be instructed to pay optimum attention to include work on the development of national execution performance indicators as part of Support for Technical Services and Support for Project and Programme Development activities, whenever appropriate and feasible.	Ongoing/ 30 November 1996

Board recommendations	UNDP response	Follow-up actions	Status and target date
<u>Budgetary matters</u> 15. UNDP should carry out work measurement exercises of country offices' activities to help strengthen its budgetary formulation process at the local level, provide benchmarking data for country offices and to compile standard performance indicators (paras. 12 (a), 41 and 168-169).	UNDP acknowledges the importance of independent work measurement exercises for country offices. UNDP told the Board that one of the projects it was pursuing as part of the management of change initiative concerned the "country office of the future" through which it would review office structures and establish benchmarks and standard performance indicators for country offices.	The "country office of the future" project is currently in progress in connection with the organization-wide management of change initiative. The target date for completion of the initiative is the end of 1997, including the establishment of country office work measurement exercises.	Ongoing/ 31 December 1997
16. UNDP should develop a means of reporting achievement of the activities provided for in the budget (paras. 12 (b), 43 and 171-172).	See recommendation 15 above.	Refer to item 15 above.	Ongoing/ 31 December 1997
<u>Management of the funds</u> 17. UNDP should ensure that there is a clear and demonstrable analysis of the mandates of the funds and their contribution to all of UNDP's corporate objectives (paras. 13 (a), 44 and 178).	The Board noted that UNDP's Sustainable Energy and Environment Division (SEED) was developing such an approach for its activities, which included three of the funds reviewed (Global Environment Facility (GEF), Montreal Protocol, United Nations Office to Combat Desertification and Drought).	The mandates of funds are analysed for the contribution they make to strategy implementation. It is expected this work will be completed initially in March 1997. The goals and activities of the funds will be analysed and absorbed into the UNDP-wide workplan, and will relate to the corporate goals of UNDP. The work-planning process is annual with periodic reviews.	Ongoing/ 31 March 1997

Board recommendations	UNDP response	Follow-up actions	Status and target date
18. United Nations Development Fund for Women (UNIFEM) and the United Nations Capital Development Fund (UNCDF) should draw up a strategy, setting out their long-term business objectives and approaches for achieving their mandate and objectives (paras. 13 (b), 45 and 179-185).		At its forthcoming Strategic Planning Workshop, UNIFEM will develop a strategy and business plan as decided by the Executive Board. UNIFEM will report to the Executive Board on the progress of both at its first regular session and present both the paper and the plan at the annual session. The UNCDF policy paper entitled "Poverty reduction, participation and local governance" in 1995 laid out UNCDF's corporate goals. UNCDF has further refined its three core products and published papers on the policy and design frameworks for each. In January 1996, UNCDF commissioned an external capacity assessment to analyse its capacity to achieve these goals within three years given current staffing and practices. An action plan for carrying this out has been prepared and is under way.	Ongoing/ 1 July 1997

Board recommendations	UNDP response	Follow-up actions	Status and target date
19. UNDP and UNIFEM should prepare and implement a plan, with a clearly defined timetable, to replace UNIFEM's budget management system (BMS) with a system which is integrated with UNDP's main financial system (paras. 13 (c) and 194).	The Administrator had proposed that UNIFEM should replace BMS with UNDP's Project Financial Management System (PFMS).	A survey of PFMS capacities revealed that the system does not fully address UNIFEM needs and requirements. Because of its direct role in project planning, implementation and monitoring, UNIFEM requires a system which allows the inclusion of pipeline projects, the setting of approval ceilings and the tracking and monitoring of allocations and expenditures on a project-by-project basis. In the light of this, selected staff from UNIFEM participated last August in a workshop sponsored by UNDP on the Financial Information Management (FIM) budget module and concluded that this system, which will be integrated with UNDP's main financial system, best meets UNIFEM requirements. UNIFEM is therefore expected to adopt this UNDP FIM system for its budget management and reporting purposes. The expected completion date is mid-1997.	Ongoing/ 1 June 1997

Board recommendations	UNDP response	Follow-up actions	Status and target date
20. UNDP should establish a monitoring and evaluation strategy [for the funds and trust funds], with clearly defined criteria for selecting programmes for joint monitoring reviews and projects for evaluation (paras. 13 (d) and 198-205).	UNDP has recently developed draft terms of reference for monitoring reviews to be undertaken jointly with Governments and the beneficiaries during the course of country programmes.	UNDP is already assisting GEF and "Capacity 21" on developing a monitoring and evaluation strategy. The GEF Council is considering a monitoring and evaluation work programme. Upon approval, UNDP will develop an overall work programme to implement the GEF monitoring and evaluation work programme. Some funds such as UNCDF and UNIFEM already have a strategy in place. The revised UNIFEM period report formats have been tested in a number of countries, and new formats in the light of feedback have now been sent to all countries. UNIFEM anticipates worldwide use by October 1996. Most UNCDF projects are UNDP-co-funded and lend themselves to joint monitoring and evaluation. UNCDF produces an annual evaluation plan, summarizes reports and synthesizes lessons in an annual overview note. A more systematic strategy for other funds and trust funds will be established.	Ongoing/ 1 June 1997
Internal audit 21. The non-audit function of the Division for Audit and Management Review (DAMR) of updating manuals should be transferred to an operational unit (paras. 14 (a), 52 and 208-212).		Discussions are under way to transfer these responsibilities to the Division for Operational Policies and Procedures. These internal discussions are taking account of workload and staff resources.	Ongoing/ 1 December 1996

/...

Board recommendations	UNDP response	Follow-up actions	Status and target date
22. In drawing up its plans, DAMR should assess and record the resource implications and skills needed for the work proposed, taking account of ad hoc demands (paras. 14 (b) and 225).		For each audit section, all auditable units and other workload indicators, by location and region, are being identified. A long-term (5-year) audit plan is being completed for each audit section, which includes: estimated resource requirements and costs for each audit or work task identified, proposed audit/coverage cycle, and capacity assessment.	Ongoing/ 31 December 1996
23. DAMR should clearly document the criteria used to select subjects proposed for review, which should include materiality, known and potential risks, and the timeliness of the proposed audit (paras. 14 (d), 57 and 223-229).		DAMR is carrying out a formal client consultation process to identify audit and work task priorities for 1997 and future years. DAMR will complete a draft 1997 audit workplan which will include for each audit or task identified: proposed timing (month), associated costs, basis for selection including risk assessment and consultation process, linkages of activities between DAMR section, capacity assessment for each audit section. DAMR will finalize the 1997 workplan and long-term plans.	1 December 1996
24. All audit sections should produce long-term audit plans identifying proposals covering their audit fields and any resulting resource changes needed (paras. 14 (d), 57 and 223-229).	DAMR anticipated that the implementation of additional regional service centres, further contracting with private sector auditing firms and improvements in the quality and scope of the firms' services would increase the audit coverage of country offices and release DAMR staff resources to carry out more audits at UNDP headquarters.	Refer to item 22 above.	Ongoing/ 31 December 1996

Board recommendations	UNDP response	Follow-up actions	Status and target date
25. DAMR should establish standard documentation, clearly setting out the audit procedures undertaken, and the findings and conclusions; and it should update its permanent files with basic information on the auditees (paras. 14 (e), 58 and 230).	The Board noted that this problem was being addressed as part of DAMR's quality service initiative.	DAMR, through its programme of quality service initiatives, will develop and implement documentation standards, including permanent file and audit working papers.	Ongoing/ 1 March 1997
26. DAMR should survey the risks associated with the operation of headquarters computer systems and provide audit coverage as appropriate (paras. 14 (f), 59 and 233).		Survey of risks associated with operations of headquarters computer systems forms part of DAMR's ongoing update of its long-term plan, based on work assessment, among its criteria.	Ongoing/ 1 November 1996
27. DAMR should establish procedures to follow up on actions taken by UNDP and the United Nations Office for Project Services (UNOPS) in response to internal audit recommendations to demonstrate the improvements made (paras. 14 (g) and 237).	The Board ... welcomes DAMR's plan to strengthen follow-up action as part of its quality service initiative.	DAMR agrees and will continue to improve on its follow-up on implementation of recommendations, including software enhancement, to facilitate follow-up of important recommendations.	Ongoing/ 1 December 1996